

SOLITUDE IMPROVEMENT DISTRICT

Financial Statements

December 31, 2005

(With Independent Auditors' Report Thereon)

**SOLITUDE IMPROVEMENT DISTRICT
SPECIAL SERVICE DISTRICT
DECEMBER 31, 2005**

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**To The Board of Trustees
Solitude Improvement District, A Special Service District**

Independent Auditors' Report

We have audited the accompanying basic financial statements of Solitude Improvement District, a Special Service District (the District), as of and for the year ended December 31, 2005, as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of the District as of December 31, 2004, were audited by other auditors whose report dated January 19, 2005, expressed an unqualified opinion on those statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller of the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, based on our audit and the report of other auditors, the financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of Solitude Improvement District, a Special Service District as of December 31, 2005, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 16, 2006, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The management's discussion and analysis, as listed in the table of contents, is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Schmitt, Griffiths, Smith & Co., P.C.

January 16, 2006

Management's Discussion and Analysis

**Solitude Improvement District
Special Service District
Management's Discussion and Analysis
December 31, 2005**

This section of the Solitude Improvement District, a Special Service District (the District) report presents management's discussion and analysis of the District's financial performance during the year ended December 31, 2005. Please read it in conjunction with the District's basic financial statements, which follows this section.

FINANCIAL HIGHLIGHTS

As Management of the Solitude Improvement District, Big Cottonwood Canyon, Salt Lake County, Utah, (District) we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the year ended December 31, 2005. The District prepares its financial statements on the accrual basis of accounting. Revenues are recognized as earned and expenditures are recorded when incurred. The District receives funds from four principal sources, monthly user fees, connection fees, dump station fees and interest income. Bonds issued by the District require certain amounts be maintained to comply with bond terms. These restricted cash accounts are maintained as separate accounts at the Utah State Treasurer's office in PTIF accounts. (Public Treasurer Investment Funds) The State Treasurer invests these PTIF funds in U.S. Government securities and investment grade Corporate bonds to produce a portion of the interest income received by the District.

- Total Assets of the District decreased \$78,780 as of December 31, 2005, from the prior year, principally, due to depreciation.
- Total revenue of the District increased \$3,938 or 3.8% over the prior year.
- The District's debt obligations of \$2,473,386 as of December 31, 2004 were reduced by bond payments of \$294,990.

OVERVIEW OF THE SOLITUDE IMPROVEMENT DISTRICT

The Solitude Improvement District was created August 4, 1982 by Resolution No. 969 of the Salt Lake County Commission for the purpose of sewer, water and flood control, but initially, for the construction, operation and maintenance of a sewer system in Big Cottonwood Canyon. The District operates as an "Independent District" and not a component unit of any other governmental entity and the District has no subordinate component unit.

A three member Board of Trustees govern the District. They have staggered four year terms and are appointed by the Mayor of Salt Lake County with the advice and consent of the Salt Lake County Council.

**Solitude Improvement District
Special Service District
Management's Discussion and Analysis, Continued
December 31, 2005**

OVERVIEW OF THE FINANCIAL STATEMENTS

The District's financial statements consist of two parts – management's discussion and analysis and the basic financial statements. The District summary financial statements reflect the effect of accounting transactions for the year and include notes to financial statements.

- The District financial statements provide information about the District's overall financial position and results from operations. These statements, which are presented on the accrual basis, consist of the Comparative Statements of Net Assets, the Comparative Statements of Revenues, Expenses and Changes in Net Assets and the Statements of Cash Flows.
- The financial statements also include a "Notes to Financial Statements" section that provides additional information that is essential to a full understanding of the data provided in the District statements.

The District statements report information using accounting methods similar to those used in private sector companies. The Statement of Net Assets includes all of the District's assets and liabilities. All of the current year's revenues and expenses are accounted for in the Statement of Revenues, Expenses and Changes in Net Assets regardless of when cash is received or paid.

The District's presentation, using comparative statements for the Statements of Net Assets, Statements of Revenues, Expenses, and Changes in Net Assets and Statements of Cash Flows is one way of measuring changes in the financial statements and to evaluate the District's overall financial position. This is much the same as done in the private sector.

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**Solitude Improvement District
Special Service District
Management's Discussion and Analysis, Continued
December 31, 2005**

OVERVIEW OF DISTRICT FINANCIAL POSITION

The tables identified below summarize information presented in the financial statements:

Solitude Special Service District's NET ASSETS

	2005	2004
Total current assets	\$ 1,148,883	\$ 1,120,539
Capital assets	3,973,136	4,080,335
Other assets	1,970	1,895
Total Assets	<u>5,123,989</u>	<u>5,202,769</u>
Current liabilities	344,264	325,477
Long-term liabilities	<u>2,124,727</u>	<u>2,440,592</u>
Total liabilities	<u>2,468,991</u>	<u>2,766,069</u>
Net assets invested in capital assets, net of related debt	1,794,740	1,606,949
Net assets restricted for debt service and emergency repairs	715,380	714,990
Unrestricted net assets	<u>144,878</u>	<u>114,761</u>
Net assets	<u><u>\$ 2,654,998</u></u>	<u><u>\$ 2,436,700</u></u>

Solitude Special Service District's CHANGE IN NET ASSETS

Operating revenues	\$ 492,182	\$ 488,244
Operating expenses	<u>306,186</u>	<u>255,152</u>
Operating income	185,996	233,092
Nonoperating revenues	<u>32,302</u>	<u>16,957</u>
Change in net assets	218,298	250,049
Net assets, beginning of year	<u>2,436,700</u>	<u>2,186,651</u>
Net assets, end of year	<u><u>\$ 2,654,998</u></u>	<u><u>\$ 2,436,700</u></u>

**Solitude Improvement District
Special Service District
Management's Discussion and Analysis, Continued
December 31, 2005**

OVERVIEW OF DISTRICT FINANCIAL POSITION, Continued

A portion of the District's net assets (6 percent at December 31, 2005) reflects its investment in assets restricted for debt service. These assets will be used over time to make debt service

payments. The net assets representing investments in capital assets net of related debt consist of land and easements, sewer pipes, and equipment and fixtures less any related debt used to acquire those assets that are still outstanding.

LONG TERM DEBT

The District financed the construction of its capital improvements with (1) Sewer Revenue Bonds, Series 1990 in the original principal amount of \$2,993,000, bearing interest at 3% per annum and (2) Sewer Revenue Bonds, Series 1993 issued in the original amount of \$2,995,000, bearing interest at 0% per annum, each with escalating principal payments. These two original bonds totaled \$5,988,000. In 1995, the District, with bond holder consent, reissued these two bonds as (1) Sewer Revenue Refunding Bonds, Series 1995A, in the aggregate principal amount of \$2,649,000, bearing interest at 0% per annum and (2) Sewer Refunding Bonds, Series 1995B, in the aggregate principal amount of \$2,467,000, bearing interest at 0% per annum, each with level term principal payments. The 1995 Refunding Bonds totaled \$5,116,000. The total owing on both bonds as of December 31, 2005 is \$2,178,396. In addition, the District is in compliance with all bond terms and covenants.

CAPITAL ASSETS

The proceeds of said bonds were used primarily to design and construct the sewer system and pump stations in Big Cottonwood Canyon. The sewer pipe is Hydropolyethylene, SDR 17 (HDPE) constructed in a ten (10") size from the mouth of the canyon to the Solitude Ski Resort and eight (8") size from the Solitude Ski Resort to the Brighton Circle. All subsequent collector lines in the various communities in the canyon are constructed with an eight (8") inch size. All lateral connections to homes are required to be four (4") inch HDPE SDR17 pipe. While the product life of the pipe is represented to be not less than seventy-five (75) years, the Internal Revenue Service depreciation schedule for sewer lines is fifty (50) years. The main sewer lines and collector systems were constructed between 1990 and 1995.

**Solitude Improvement District
Special Service District
Management's Discussion and Analysis, Continued
December 31, 2005**

MAINTENANCE OF CAPITAL ASSETS

The District has a maintenance contract with the Cottonwood Improvement District who provides manpower, equipment and support for the maintenance of the sewer lines. Cottonwood utilizes a maintenance schedule for the District similar to the one utilized by themselves for their own district. Extraordinary maintenance is billed to the District which expenses such charges as incurred. The District also receives a periodic report of condition of sewer manholes which the District uses to hire a third party for such repairs necessitated by broken bolts, raising manholes to grade or damage caused by road maintenance equipment. These repairs are expensed when incurred. Additionally, the District has set aside \$140,000 in separated Emergency Repair Reserves for unexpected circumstances.

REQUEST FOR INFORMATION

This financial report is designed to provide a general overview of the Districts' accountability for all those interested. If you have additional questions regarding financial information, you may contact our office in writing at the following address:

Solitude Improvement District
P.O. Box 71350
Salt Lake City, Utah 84171-0350

Basic Financial Statements

**Solitude Improvement District
Special Service District
Statements of Net Assets
December 31, 2005 and 2004**

	<u>2005</u>	<u>2004</u>
<u>ASSETS</u>		
Current assets:		
Cash and invesments	\$ 421,379	\$ 386,159
Restricted cash and investments	715,380	714,990
Accounts receivable	<u>12,124</u>	<u>19,390</u>
Total current assets	1,148,883	1,120,539
Capital assets		
Depreciable assets, net	3,938,136	4,045,335
Land and water rights	35,000	35,000
Other assets, net	<u>1,970</u>	<u>1,895</u>
	<u><u>\$ 5,123,989</u></u>	<u><u>\$ 5,202,769</u></u>
<u>LIABILITIES</u>		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 28,328	\$ 9,861
Current portion of deferred revenue	20,556	20,626
Current portion of long-term debt	<u>295,380</u>	<u>294,990</u>
Total current liabilities	344,264	325,477
Long term portion of deferred revenue	241,711	262,196
Long-term debt, net of current portion	<u>1,883,016</u>	<u>2,178,396</u>
Total liabilities	<u><u>2,468,991</u></u>	<u><u>2,766,069</u></u>
<u>NET ASSETS</u>		
Invested in capital assets, net of related debt	1,794,740	1,606,949
Restricted for debt repayment and emergency repairs	715,380	714,990
Unrestricted	<u>144,878</u>	<u>114,761</u>
Fund equity	<u><u>2,654,998</u></u>	<u><u>2,436,700</u></u>
	<u><u>\$ 5,123,989</u></u>	<u><u>\$ 5,202,769</u></u>

**Solitude Improvement District
Special Service District
Statements of Revenues, Expenses
and Changes in Net Assets
Years Ended December 31, 2005 and 2004**

	<u>2005</u>	<u>2004</u>
Operating revenues:		
Sewer connection fees	\$ 14,641	\$ 21,000
Sewer operating and maintenance fees	177,130	169,333
Sewer debt service fees	295,936	295,636
Dump station fees	<u>4,475</u>	<u>2,275</u>
Total operating revenues	<u>492,182</u>	<u>488,244</u>
Operating expenses:		
Engineering and sewer processing	90,361	44,600
Operations, maintenance and repairs	83,982	80,067
Management and finance	15,942	14,845
Legal and professional services	8,702	8,053
Depreciation	<u>107,199</u>	<u>107,587</u>
Total operating expenses	<u>306,186</u>	<u>255,152</u>
Operating income	<u>185,996</u>	<u>233,092</u>
Non-operating revenues:		
Interest income	32,284	16,733
Other income	<u>18</u>	<u>224</u>
Total non-operating revenues	<u>32,302</u>	<u>16,957</u>
Change in net assets	<u>218,298</u>	<u>250,049</u>
Net assets, beginning of year	<u>2,436,700</u>	<u>2,186,651</u>
Net assets, end of year	<u><u>\$ 2,654,998</u></u>	<u><u>\$ 2,436,700</u></u>

**Solitude Improvement District
Special Service District
Statements of Cash Flows
Years Ended December 31, 2005 and 2004**

	<u>2005</u>	<u>2004</u>
Cash flows from operating activities:		
Cash received from customers	\$ 499,448	\$ 455,576
Cash paid to employees and suppliers	<u>(180,595)</u>	<u>(127,500)</u>
Net cash from operating activities	<u>318,853</u>	<u>328,076</u>
Cash flows from capital and related financing activities:		
Deferred revenue	(20,555)	(20,626)
Debt payments	<u>(294,990)</u>	<u>(294,600)</u>
Net cash from capital and related financing activities	<u>(315,545)</u>	<u>(315,226)</u>
Cash flows from investing activities:		
Interest received	<u>32,302</u>	<u>16,957</u>
Net change in cash	35,610	29,807
Cash - beginning of period	<u>1,101,149</u>	<u>1,071,342</u>
Cash - end of period	<u><u>\$ 1,136,759</u></u>	<u><u>\$ 1,101,149</u></u>
Cash reported on the balance sheet:		
Cash	\$ 421,379	\$ 386,159
Restricted for debt repayment and emergency repairs	<u>715,380</u>	<u>714,990</u>
	<u><u>\$ 1,136,759</u></u>	<u><u>\$ 1,101,149</u></u>

**Solitude Improvement District
Special Service District
Statements of Cash Flows, Continued
Years Ended December 31, 2005 and 2004**

	<u>2005</u>	<u>2004</u>
Reconciliation of operating income to cash flows provided by operating activities:		
Net operating income	\$ 185,996	\$ 233,092
Adjustments to reconcile net operating income to net cash from operating activities:		
Depreciation	107,199	107,587
Changes in operating assets and liabilities:		
Accounts receivable	7,266	(12,424)
Prepaid expenses	(75)	(179)
Accounts payable	18,467	-
Total adjustments	<u>132,857</u>	<u>94,984</u>
Net cash from operating activities	<u>\$ 318,853</u>	<u>\$ 328,076</u>

**Solitude Improvement District
Special Service District
Notes to Financial Statements
December 31, 2005 and 2004**

(1) Summary of Significant Accounting Policies

This summary of significant accounting policies of Solitude Improvement District, a Special Service District (the District) is presented to assist in understanding the District's financial statements. The financial statements and notes are representations of the District's management, who are responsible for their integrity and objectivity. These accounting policies conform to generally accepted accounting principles, and have been consistently applied in the preparation of these financial statements.

Operations

The District was created August 4, 1982 by Resolution No. 969 of the Salt Lake County Commission for the purpose of sewer, water and flood control, and initially, for the construction and operation of a sewer system in Big Cottonwood Canyon.

Component Unit

The District has considered GASB Statement No. 14 and has determined the District is not a component unit of any other governmental entity and that the District has no subordinate component units. The District operates as an enterprise Fund.

Accounting Policies

The District operates as an enterprise fund. Enterprise funds are used to account for operations that are financed and operated in a manner similar to private business enterprises where the costs (expenses, including depreciation) of providing services to the public on a continuing basis are financed through user charges. Revenue from sewer fees is recorded based on monthly usage at stated rates. Other revenues are recorded when services are performed.

**Solitude Improvement District
Special Service District
Notes to Financial Statements, Continued
December 31, 2005 and 2004**

(1) Summary of Significant Accounting Policies, Continued

Accounting Policies, Continued

Effective January 1, 2004, the District adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Government*, GASB Statement No. 37, *Basic Financial Statements and Management’s Discussion and Analysis – for State and Local Governments: Omnibus*, and GASB Statement No. 38, *Certain Financial Statement Disclosures*. The District follows all Governmental Accounting Standards Board (GASB) pronouncements as well as the Financial Accounting Standards Board pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

Budgetary Policy

Budgetary procedures for the District have been established by Utah State Statute in Title 17A – Special Districts. The District uses the same accounting method for preparing the budget as is used for financial reporting. The financial reports reflect the following budgetary standards:

- For the fiscal year beginning January 1, the District trustees prepare a proposed a budget which is presented to the Utah State Auditor on or before December 31.
- By resolution, the District trustees legally adopt a budget prior to December 31, after a public hearing has been held.
- Once adopted, the budget can be amended to any extent by subsequent trustee action. Reductions in appropriations can be approved by the trustees, but increased appropriations require a public hearing prior to amending the budget.
- Any adjustments in estimated revenue and revisions of appropriations due to operational changes in categorical program funding are integrated into the amended budget approved by the trustees.
- A final amended budget is legally approved by the trustees and the Utah State Auditor prior to the end of the fiscal year.

**Solitude Improvement District
Special Service District
Notes to Financial Statements, Continued
December 31, 2005 and 2004**

(1) Summary of Significant Accounting Policies, Continued

Measurement Focus and Basis of Accounting

The financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expense is recorded when a liability is incurred, regardless of the timing of the related cash flows.

Federal and State Income Taxes

The District is an independent political subdivision of Salt Lake County, Utah, and is exempt from the payment of Federal and State income taxes.

Cash Equivalents

The District considers all highly liquid debt instruments with a maturity of three months or less when purchased to be cash equivalents.

Accounts Receivable

Accounts receivable consists of various fees due from the users of its systems. Based on the payment history and the ability of the District to lien property, management believes that no allowance for possible uncollectible amounts is necessary.

Depreciation and Amortization

The costs of property and equipment are depreciated using the straight-line method over estimated useful lives ranging from 5 to 60 years.

Comprehensive Income

Comprehensive income approximates net income for the years ended December 31, 2005 and 2004.

**Solitude Improvement District
Special Service District
Notes to Financial Statements, Continued
December 31, 2005 and 2004**

(1) Summary of Significant Accounting Policies, Continued

Estimations and Assumptions

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Reclassification

Certain amounts in the 2004 financial statements have been reclassified to conform to the current year presentation.

(2) Cash and Restricted Cash

The District follows the requirements of the Utah Money Management Act in handling its depository and temporary investment transactions. This law requires the depositing of District funds in a "qualified depository." The Utah Money Management Act defines a "qualified depository" as any financial institution whose deposits are insured by an agency of the federal government and which has been certified by the Commissioner of Financial Institutions as meeting the requirements of the Utah Money Management Act and adhering to the rules of the Utah Money Management Council.

As required by the GASB, the District's deposits are categorized to give an indication of the level of risk assumed by the District at year-end. Category 1 includes deposits that are insured or collateralized with securities held by the District or its agent in the District's name. Category 2 includes deposits which are collateralized with securities held by the pledging financial institution's trust department or agent in the District's name. Category 3 are deposits which are uninsured and uncollateralized.

**Solitude Improvement District
Special Service District
Notes to Financial Statements, Continued
December 31, 2005 and 2004**

(2) Cash and Restricted Cash, Continued

The District maintains one account at a financial institution as well as seven accounts with the Utah Public Treasurer's Investment Fund. Deposits in a local bank were covered up to \$100,000 by federal depository insurance (Category 1). The remaining deposits are uninsured and uncollateralized (Category 3). No deposits are collateralized nor are they required to be by State statute.

Total deposits and investments as of December 31, 2005 and 2004 are as follows:

	<u>2005</u>	<u>2004</u>
Carrying amount of deposits	\$ 8,027	\$ 7,711
Carrying amount of investments	<u>1,128,732</u>	<u>1,093,438</u>
Total cash and investments	<u>\$ 1,136,759</u>	<u>\$ 1,101,149</u>

A recap of cash and investments as shown on the balance sheet at December 31, 2005 and 2004, is as follows:

	<u>2005</u>	<u>2004</u>
Current assets - cash and investments	\$ 421,379	\$ 386,159
Current assets - restricted cash and investments	<u>715,380</u>	<u>714,990</u>
Total cash and investments	<u>\$ 1,136,759</u>	<u>\$ 1,101,149</u>

In accordance with revenue bond requirements, the District maintains various restricted cash and investment accounts for bond service debt, bond sinking fund and emergency repairs.

**Solitude Improvement District
Special Service District
Notes to Financial Statements, Continued
December 31, 2005 and 2004**

(3) Capital Assets

Capital asset activity for the year ending December 31, 2005 was as follows:

	Balance January 1, 2005	Additions	Dispositions / Transfers	Balance December 31, 2005
Capital assets not being depreciated:				
Land and easements	\$ 35,000	\$ -	\$ -	\$ 35,000
	<u>35,000</u>	<u>-</u>	<u>-</u>	<u>35,000</u>
Depreciable assets:				
Sewer phase I	3,011,541	-	-	3,011,541
Sewer phase II	665,200	-	-	665,200
Sewer phase III	1,794,754	-	-	1,794,754
Furniture and fixtures	9,938	-	-	9,938
	<u>5,481,433</u>	<u>-</u>	<u>-</u>	<u>5,481,433</u>
Accumulated depreciation	(1,436,098)	(107,199)	-	(1,543,297)
	<u>4,045,335</u>	<u>(107,199)</u>	<u>-</u>	<u>3,938,136</u>
	<u><u>\$ 4,080,335</u></u>	<u><u>\$ (107,199)</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 3,973,136</u></u>

(4) Accrued Liabilities

Accrued liabilities consist of accrued wages and benefits, and professional fees.

(5) Long-Term Debt

A summary of long-term debt activity for the year ended December 31, 2005 is as follows:

	Balance January 1, 2005	New Debt Issued or Acquired	Principal Payments	Balance December 31, 2005	Due Within One Year
Debt payable	\$ 2,473,386	\$ -	\$ 294,990	\$ 2,178,396	\$ 295,380

**Solitude Improvement District
Special Service District
Notes to Financial Statements, Continued
December 31, 2005 and 2004**

(5) Long-Term Debt, Continued

On July 26, 1995, the District obtained approval from the Water Pollution Control Committee (WPCC) of the State of Utah to issue \$2,649,000 in Sewer Revenue Refunding Bonds, Series 1995A and \$2,467,000 in Sewer Revenue Refunding Bonds, Series 1995B. At December 31, 1995, \$2,347,000 of the Series 1995B refunding bonds had been issued, with a final advance \$29,716 occurring April 1, 1996. The refunding bonds bear no interest and payments are due annually beginning January 1, 1996. Principal is due annually through 2016 for the Sewer Revenue Bonds, Series 1995A, and through 2018 for the Sewer Revenue Bonds, Series 1995B.

The District has issued the following notes and bonds payable as of December 31, 2005 and 2004:

Series	Original Issue	Interest Rate	Maturity Date	Principal Outstanding	
				2005	2004
Bonds Payable					
Sewer Revenue					
1995A	2,993,000	None	2011	\$ 1,031,680	\$ 1,203,670
1995B	2,376,716	None	2013	<u>1,146,716</u>	<u>1,269,716</u>
				2,178,396	2,473,386
			Less current portion	<u>(295,380)</u>	<u>(294,990)</u>
				<u>\$ 1,883,016</u>	<u>\$ 2,178,396</u>

As of December 31, 2005, the maturities of the bonds payable are as follows:

Years Ending December 31,	Bonds Payable		Service Requirement
	Principal	Interest	
2006	\$ 295,380	\$ -	\$ 295,380
2007	295,380	-	295,380
2008	296,380	-	296,380
2009	296,380	-	296,380
2010	293,780	-	293,780
2010-13	405,716	-	405,716
	<u>\$ 1,883,016</u>	<u>\$ -</u>	<u>\$ 1,883,016</u>

**Solitude Improvement District
Special Service District
Notes to Financial Statements, Continued
December 31, 2005 and 2004**

(6) Related Party Transactions

Operating Lease

The District leases office space from Solitude Ski Resort Company (the Resort), an entity related by virtue of the Board and ownership in the Resort. The lease was automatically renewed for a one year period beginning January 1, 2006, for \$100 per month and can be renewed in future years unless 30 days prior to the renewal date, written notice is given by either party. Rent paid was \$1,200 for each year ended December 31, 2005 and 2004.

Major Customer

At December 31, 2005 the Resort comprised 18% of total operating revenues.

(7) Operating Lease

The District leases a vehicle under an operating lease expiring in 2006. The cost of the vehicle, \$14,400, was capitalized in the District's property and equipment. During each of the years 2005 and 2004, the District made payments on this lease totaling \$4,800.

Future minimum rental payments on the lease are:

Years Ending December 31,	
2006	\$ 3,200
Thereafter	<u>-</u>
	<u>\$ 3,200</u>

(8) Defined Benefit Pension Plan

The District contributes to the Local Governmental Non-contributory Retirement System cost-sharing multiple-employer defined benefit pension plan administered by the Utah Retirement Systems (the System). The System provides refunds, retirement benefits, annual cost of living adjustments and death benefits to plan members and beneficiaries in accordance with retirement statutes.

No employee contributions are required in System. The District was required to contribute 11.09% as of December 31, 2005 for members in the System. The contribution requirements of the System are authorized by the Board.

**Solitude Improvement District
Special Service District
Notes to Financial Statements, Continued
December 31, 2005 and 2004**

(8) Defined Benefit Pension Plan, Continued

The District's contributions to the System for the years ended December 31, 2005 and 2004 were \$5,372 and 5,016, respectively.

The District also participates in the 401K plan of the Utah Retirement Systems, which covered all full-time employees. The District did not contribute to the plan during 2005 and 2004.

(9) Insurance Policies

A list of insurance policies in force at December 31, 2005 is as follows:

<u>Name of Issuer</u>	<u>Expiration Date</u>	<u>Risk Covered</u>	<u>Amount of Policy</u>
Utah Local Governments Trust	Continuous	General Liability & Property, Errors & Omissions	\$ 2,000,000
Utah Local Governments Trust	Continuous	Non-owned & Auto Liability	\$ 2,000,000
Utah Local Governments Trust	January 1, 2007	Workman's Comp	\$ 100,000
Acordia Mountain West Insurance Company	June 16, 2006	Employee Dishonesty	\$ 880,000

(10) Sewer Rates and Connections

Number of sewer connections both inside and outside the tax boundaries of the District at December 31, 2005 (in Equivalent Residential Units - ERU's)	1,207.53
Number of sewer connections within the tax boundaries of the District at December 31, 2005 (in Equivalent Residential Units - ERU's)	469.17
Number of applications for sewer service on hand at December 31, 2005	24.67
Rates and charges imposed for sewer service per ERU, per month	\$ 35.50

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

**The Governing Board of
Solitude Improvement District, A Special Service District**

We have audited the basic financial statements of Solitude Improvement District, a Special Service District (the District), as of and for the year ended December 31, 2005, and have issued our report thereon dated January 16, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the basic financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be a material weakness. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operations that we consider to be material weaknesses.

Compliance

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, and contracts, noncompliance with which could have a direct and material effect on the determination of financial statement accounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

However, we noted certain matters that we reported to management of the District in a separate letter dated January 16, 2006.

This report is intended solely for the information and use of the audit committee, management, others within the organization, and the County Commission and is not intended to be and should not be used by anyone other than these specified parties.

Schmitt, Griffin, Smith & Co., P.C.

January 16, 2006

**SOLITUDE IMPROVEMENT DISTRICT
SPECIAL SERVICE DISTRICT
Summary Schedule of Prior Audit Findings
December 31, 2005**

Findings – Financial Statement Audit

No prior audit findings are required to be reported in the current year.

INDEPENDENT AUDITORS' REPORT ON THE STATE OF UTAH LEGAL COMPLIANCE

The Governing Board Solitude Improvement Special Service District

We have audited the basic financial statements of Solitude Improvement District, a Special Service District (the District), for the year ended December 31, 2005, and have issued our report thereon dated January 16, 2006. Our audit included testwork on the District's compliance with those general compliance requirements identified in the State of Utah Legal Compliance Audit Guide:

- Public Debt
- Cash Management
- Purchasing Requirements
- Budgetary Compliance
- Special Districts
- Other General Compliance Issues

The District did not receive any major or nonmajor state grants during the year ended December 31, 2005.

The management of Solitude Improvement District is responsible for the District's compliance with all compliance requirements identified above. Our responsibility is to express an opinion on compliance with those requirements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether material noncompliance with the requirements referred to above occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements. We believe that our audit provides a reasonable basis for our opinion.

The results of our audit procedures disclosed no instances of noncompliance with the requirements referred to above.

In our opinion, the District, complied, in all material respects, with the general compliance requirements identified above for the year ended December 31, 2005.

This report is intended solely for the information and use of the management of the District and the various federal and state funding and audit agencies. However, this report is a matter of public record, and its distribution is not limited.

Schmitt, Giffels, Smith & Co., P.C.

January 16, 2006

**SOLITUDE IMPROVEMENT DISTRICT
SPECIAL SERVICE DISTRICT
State Compliance Schedule Audit Findings
December 31, 2005**

Findings – Financial Statement Audit

There are no current year findings required to be reported.

January 16, 2006

To the Board of Trustees and Management
of Solitude Improvement District, A Special Service District

In planning and performing our audit of the financial statements of Solitude Improvement District, a Special Service District (the District), for the year ended December 31, 2005, we considered its internal control in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control.

Our consideration of the internal control would not necessarily disclose all matters in the internal control that might be material weaknesses under standards established by the American Institute of Certified Public Accountants. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. However, we noted no matters involving the internal control and its operation that we consider to be material weaknesses as defined above.

However, during our audit we became aware of matters that are opportunities for strengthening internal controls and operating efficiency. This letter summarizes our comments and suggestions regarding this matter. We previously reported on the District's internal control in our report dated January 16, 2006. This letter does not affect our report dated January 16, 2006, on the basic financial statements of the District.



January 16, 2006

**Solitude Improvement District
Special Service District
Management Letter**

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05-1 Accrued Liabilities – Search for Unrecorded Liabilities

Condition: At month and year-end, the District does not perform a search for unrecorded liabilities by identifying those liabilities paid in subsequent periods that were due but not recorded at the date of the financial statements.

Recommendation: We recommend that effort be focused every month and year-end on identifying and recording liabilities in the proper period. By implementing this recommendation, the District will produce more accurate financial statements which will assist in better management and board decisions.

Management's Response: We concur with the above finding and will implement the above-stated recommendation.

The preceding comments recommendations are intended solely for the information and use of the board of trustees, management, and others within the District and should not be used by anyone other than these specified parties.

We have already discussed these concerns with various District personnel, and will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendation.

Very truly,

SCHMITT, GRIFFITHS, SMITH & CO., P.C.



Sherman H. Smith, CPA